



18 February 2015

**To: all authorised deposit-taking institutions, general insurers and life companies**

**Regulatory cost savings - clarification of aspects of the Internal Capital Adequacy Assessment Process requirements**

APRA received submissions on its requirements in relation to the Internal Capital Adequacy Assessment Process (ICAAP) as part of consultation on opportunities for regulatory cost savings. In particular, some submissions commented that aspects of the requirements were giving rise to undue compliance costs. For further information on APRA's regulatory cost savings project, please refer to the 'Update on regulatory cost savings' available at:

<http://www.apra.gov.au/CrossIndustry/Pages/Regulatory-cost-savings-update-February-2015.aspx>

APRA-regulated institutions may sometimes incur costs through taking unnecessary steps to meet prudential requirements. The purpose of this letter is to clarify APRA's expectations in relation to ICAAP requirements.

**Documenting the ICAAP**

Some submissions suggested APRA's documentation requirements for the ICAAP were overly onerous. It was indicated that under the prudential standards<sup>1</sup>, institutions are expected to produce an ICAAP summary statement as well as to document their full ICAAP. Smaller institutions in particular indicated their ICAAP summary statements are often very similar to their 'full' ICAAP, and savings from not having to produce a separate summary statement could be substantial.

This feedback may reflect a misunderstanding of APRA's requirements for ICAAP documentation. Provided the requirements under the relevant prudential standards are met, the ICAAP can be documented in a number of policies and procedural documents used by an institution (refer to paragraph 17 of *Prudential Practice Guide CPG 110 Internal Capital Adequacy Assessment Process and Supervisory Review* (CPG 110)). Existing documents that are prepared for the institution's own purposes can be used to meet the requirements to document the ICAAP (refer to paragraph 44 of CPG 110). Additionally, there is no requirement that the documentation of the ICAAP be consolidated in a single policy or a 'wider' or 'full' ICAAP document.

Further, an institution may already have in place a single ICAAP document that is substantively the same as an ICAAP summary statement and that covers the content necessary for an ICAAP summary statement. In that case, the document is likely to be

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<sup>1</sup> The prudential standards referred to include *Prudential Standard APS 110 Capital Adequacy* (APS 110), *Prudential Standard GPS 110 Capital Adequacy* (GPS 110), *Prudential Standard LPS 110 Capital Adequacy* (LPS 110). For guidance on these requirements, see also *Prudential Practice Guide CPG 110 Internal Capital Adequacy Assessment Process and Supervisory Review*.

sufficient to serve as the ICAAP summary statement required by the prudential standard without the need to produce a separate document. This is most likely to be the case for smaller institutions with relatively straightforward ICAAPs.

### **Comprehensive reviews of the ICAAP and risk management framework**

APRA's prudential standards require an institution to arrange for an independent review of its ICAAP as well as, separately, a comprehensive review of the risk management framework at least every three years.<sup>2</sup> Submissions suggested that cost savings can be achieved by conducting combined ICAAP and risk management framework reviews.

The existing prudential standards do not prohibit institutions from conducting a combined review. Provided the minimum requirements in the prudential standards are met, an institution may adopt a review process that best suits its circumstances.

Submissions also observed that, based on the current wording of the prudential standards, the requirement to have the ICAAP and risk management framework reviewed by an 'operationally independent' person at least every three years effectively requires smaller institutions to conduct these reviews externally, as they lack the scale to conduct internal reviews. APRA considers the independence of the review to be fundamental to a regulated institution's capital and risk management, and therefore does not consider it appropriate for the review to be undertaken by a non-independent person. There is no requirement that the review be conducted externally, but if no internal person with the appropriate skills and independence is available, it will be necessary to conduct the review externally.

### **Questions and feedback**

Institutions are encouraged to speak to their responsible supervisor should they have any questions regarding their ICAAP.

Yours sincerely



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<sup>2</sup> See APS 110, GPS 110 and LPS 110. See also *Prudential Standard CPS 220 Risk Management*.